HOUSING MARKET OUTLOOK
Charlottetown CA

CANADA MORTGAGE AND HOUSING CORPORATION

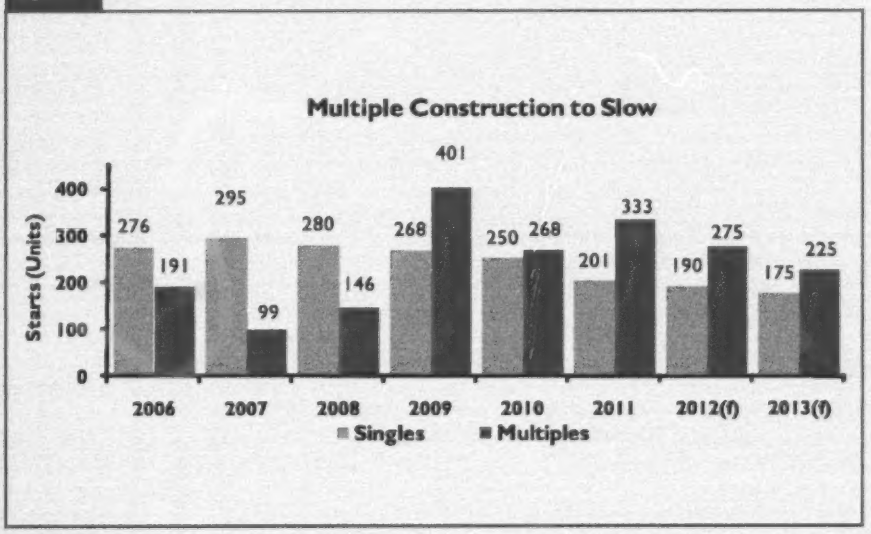
Date Released: Spring 2012

Housing Market to Slow

Since 2002, the Charlottetown housing market has been performing at an above average level but recent indicators are showing that the market is beginning to slow. The most recent peak in the housing cycle has been fueled by historically low interest rates, strong employment growth and positive migration.

Employment growth in Charlottetown decreased in the first three months of 2012, a trend that is expected to continue throughout the year. More than half of all jobs in the capital region are in the service sector, which experienced a reduction of almost 500 jobs in the first quarter. The other sector to report significant first quarter declines was public administration. This was not unexpected as both federal and

Figure 1



Source: CMHC

Table of Contents

1 Housing Market to Slow
3 Mortgage Rates
3 MLS® Sales to Moderate
3 Apartment Construction to Decline
4 Vacancy Rate to Increase
5 Forecast Summary
6 CMHC – Home to Canadians

SUBSCRIBE NOW!

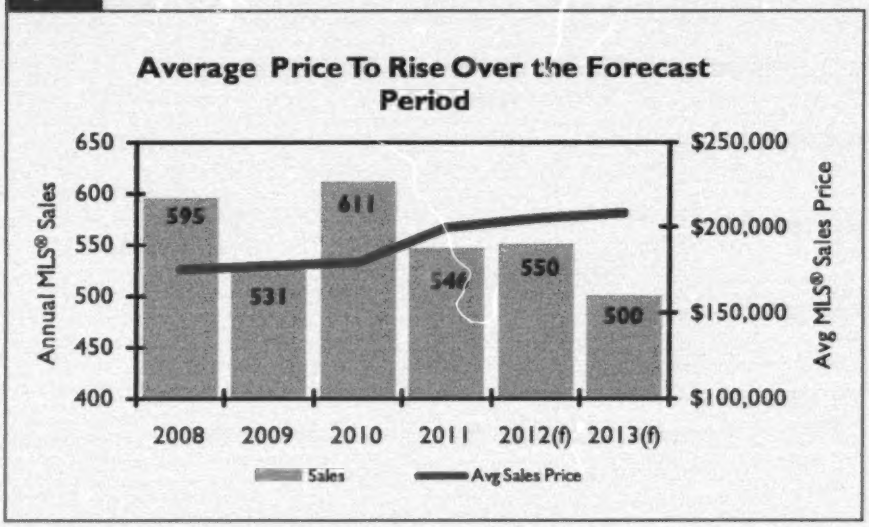
Access CMHC's Market Analysis Centre publications quickly and conveniently on the Order Desk at www.cmhc.ca/housingmarketinformation. View, print, download or subscribe to get market information e-mailed to you on the day it is released. CMHC's electronic suite of national standardized products is available for free.

provincial governments continue to exercise fiscal restraint. It is expected that the level of employment in public administration will continue to decline throughout 2012 and into 2013. Activity in the construction industry, which was a leader in job creation over the past four years, rose slightly in the first quarter, after posting declines in 2011. The most positive aspect of the employment growth, in terms of generating demand for housing, is that so far in 2012 the level of full-time positions has increased. The forecast for employment in Prince Edward Island calls for only a slight increase in each of the next two years.

During the first three months of 2012, the unemployment rate rose to approximately ten per cent after rising through much of 2011. The unemployment rate increased due to a decline in employment levels combined with advances in the labour force. The strong gains in the labour force are attributed, in part, to the high levels of in-migration to the capital region. While employment growth is expected to be limited in both 2012 and 2013, the labour force will expand again due to continued in-migration resulting in the unemployment rate rising further in 2012 and 2013.

Positive net-migration is one of the key factors that contribute to a strong housing market, as a growing population requires more housing of all types. This is one of the reasons why the Charlottetown area has been performing well especially over the past five years. From 2006 to 2011, the latest census period, the Charlottetown CA, which encompasses the entire urban area around the city, recorded a population growth of 8.7 per cent. This pace of growth is consistent with other major centres in Atlantic Canada, and above

Figure 2



Source: PEI Real Estate Board, CMHC Forecast
MLS® is a registered trademark of the Canadian Real Estate Association

the national average of 5.9 per cent. These results are also very close to what was expected, based on Statistic Canada's Tax Filer data.

Migration to the Capital region has been a positive factor for housing over the past five years, due largely to the provincial nominee program, and current trends point to another year of positive net-migration in 2012, albeit at a slower pace. Since 2006 there has been a steady and increasing inflow of people from international locations, culminating in record levels of almost 1,800 people in both 2010 and 2011. This influx of people primarily benefited the capital region as the majority of people settled in the Charlottetown area. While the level of in-migration is expected to slow in 2012, with further declines in 2013, they will be at sufficient levels to provide continued support to the local housing market.

Although, the area has been able to attract international immigration, there is still a net loss of people to the other areas of Canada. The draw of the West for young people is not new or unexpected in the Maritime Provinces, as residents have been moving westward in search of employment for many years. There was a temporary reprieve of the situation from 2008 to 2010 due to the economic downturn but this has now ended with the resurgence in oil prices. As such, expect to see out-migration increase over the forecast period, especially among the 18-24 year old age category.

In general, the housing market in the Charlottetown area will begin to slow in 2012 and into 2013. The single-detached home market, which peaked in 2004, will continue to decline given weaker employment, rising house prices and a slowing migration outlook. In contrast, multiple starts, especially apartment units, will record more substantial declines due to relatively high levels of new supply in the market resulting from three years of above average construction. It is also expected that the resale market will see some declines in total sales, while the average price will continue to climb.

Mortgage Rates

CMHC uses publically available information and the consensus among major Canadian forecasters as a basis for its interest rate forecast. Although there is significant uncertainty, consensus forecasts suggest that interest rates are not expected to rise until at least later in 2012, but will remain low by historical standards, thus supporting the Canadian housing market.

According to CMHC's base case scenario, posted mortgage rates will increase near the end of 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.1 to 3.6 per cent range, while the five-year posted mortgage rate is forecast to be within 5.0 to 5.4 per cent. For 2013, the one-year posted mortgage rate is expected to rise with interest rates and be in the 3.5 to 4.1 per cent range, while the five-year posted mortgage rate is forecast to be within 5.1 to 5.6 per cent.

MLS® Sales to Moderate

The number of residential MLS® transactions in the Charlottetown area has been in the range of 500 to 650 units per year since 1998, with the last two years being in the middle of this range. Following recent announcements related to the public service in Charlottetown, it is expected that potential home buyers will become increasingly conservative in 2012, and as such sales are expected to decline this year and next. One factor that will positively affect the local resale market is the impact of the rising cost of new homes. Currently there is a difference of approximately $60,000 between the price of a new home and an existing one. As such, potential buyers of new homes, especially first-time buyers, will give the resale market a serious look before choosing to build.

Notwithstanding the effect of new home prices, demand for existing homes is expected to decline over the forecast period, due primarily to slowing population growth and anticipated weakness in employment. MLS® sales are forecast to decrease in 2012 to 550 units and then experience another decline in 2013 to 500 units.

The average sales price will increase again this year and next, though at a much smaller level than seen in recent years. While prices will see some downward pressure due to reduced demand, the continued popularity of houses in the newer and higher priced subdivisions will support advances in the overall average sales price. The average sales price is expected to reach $205,000 and $208,000 in 2012 and 2013, respectively.

Apartment Construction to Decline

New home construction in the Charlottetown region will decrease by almost 13 per cent this year primarily due to declines in multiple starts. The forecast for 2012 will see multiple unit starts decrease to 275 units compared to the 333 units started last year.

The level of multiple unit construction has been well above the ten year average of 210 units since 2009, when a record 401 units were started. During the subsequent three years approximately 1,000 units were added to the local housing market, with more than 600 of these units being added to the rental market. It is expected that multiple starts for the homeownership market, will remain flat over the forecast period due to higher new home prices and an aging population looking for low maintenance housing options. However, expect to see rental starts decline as the vacancy rate increases and the absorption period for new developments begins to lengthen. The expectation for 2012 is for an additional 275 multiple units, before slowing to 225 units in 2013.

Single-detached home construction, with 190 new units expected in 2012, will remain well below the peak level of 331 units recorded in 2004. After one quarter of activity, 2012 has begun with similar levels to last year, but the number of new starts is expected to decline as the year progresses. As such single-detached starts are expected to decline to 190 new units in 2012 before slowing to 175 units in 2013.

The two main factors that will impact the Charlottetown market in 2012 will be the expected decline in immigration and the continuation of the rising cost of new homes. Immigration will slow due to changes to the provincial nominee program, which brought thousands of people to the Capital Region since 2008. The cost of building a house will also limit starts over the forecast period, as the rising costs of land and labour continue to push up average prices. As such, many potential home buyers will look to the existing market for their housing needs.

The average price will also rise at a more moderate pace over the next two years. Some price growth will continue due, in part, to consumer preferences which lean toward new, larger and more elaborate homes. However, this will be partially offset by rising prices.

Vacancy Rate to Increase

The vacancy rate is expected to rise as the large number of new units started in late 2010 and in 2011 are completed and enter the market. Growth in demand is expected to moderate in 2012 as international immigration eases from the high levels of recent years. As such, the vacancy rate will rise to 4.5 per cent in October 2012, and reach 5.0 per cent in 2013.

In terms of average rents, expect to see an increase greater than the 3.6 per cent allowable rent increase for heated and 2.0 per cent increase for unheated units that were approved by the Island Regulatory and Appeals Commission in late 2011. The reason for the larger rent increase will be the large number of new units entering the market with well above average rents. This will result in the average two-bedroom rent reaching approximately $765 in 2012.

Forecast Summary Charlottetown CA, Spring 2012

	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	531	611	546	550	0.7	500	-9.1
MLS® New Listings	975	786	875	850	-2.9	800	-5.9
MLS® Average Price ($)	177,237	179,813	199,580	205,000	2.7	208,000	1.5
New Home Market							
Starts:							
Single-Detached	268	250	201	190	-5.5	175	-7.9
Multiples	401	268	333	275	-17.4	225	-18.2
Starts - Total	669	518	534	465	-12.9	400	-14.0
Average Price ($):							
Single-Detached	242,674	235,703	239,840	250,000	4.2	255,000	2.0
Median Price ($):							
Single-Detached	210,000	220,000	240,000	247,200	3.0	254,628	3.0
New Housing Price Index (% chg.)	0.9	-1.6	1.8	1.0	-	0.9	-
Rental Market							
October Vacancy Rate (%)	3.4	2.3	3.3	4.5	1.2	5.0	0.5
Two-bedroom Average Rent (October) ($)	701	731	761	765	-	790	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level (,000)	32,350	33,925	34,625	34,600	-0.1	34,900	0.9
Employment Growth (%)	0.0	4.9	2.1	2.1	-	0.9	-
Unemployment Rate (%)	8.7	7.9	8.3	8.0	-	8.2	-
Net Migration (P.E.I.)	1,689	2,253	1,054	900	-14.6	700	-22.2

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

CMHC—HOME TO CANADIANS

Canada Mortgage and Housing Corporation (CMHC) has been Canada's national housing agency for more than 65 years.

Together with other housing stakeholders, we help ensure that the Canadian housing system remains one of the best in the world. We are committed to helping Canadians access a wide choice of quality, environmentally sustainable and affordable housing solutions that will continue to create vibrant and healthy communities and cities across the country.

For more information, visit our website at www.cmhc.ca

You can also reach us by phone at 1-800-668-2642 or by fax at 1-800-245-9274.
Outside Canada call 613-748-2003 or fax to 613-748-2016.

Canada Mortgage and Housing Corporation supports the Government of Canada policy on access to information for people with disabilities. If you wish to obtain this publication in alternative formats, call 1-800-668-2642.

The Market Analysis Centre's (MAC) electronic suite of national standardized products is available for free on CMHC's website. You can view, print, download or subscribe to future editions and get market information e-mailed automatically to you the same day it is released. It's quick and convenient! Go to www.cmhc.ca/housingmarketinformation

For more information on MAC and the wealth of housing market information available to you, visit us today at www.cmhc.ca/housingmarketinformation

To subscribe to priced, printed editions of MAC publications, call 1-800-668-2642.

©2012 Canada Mortgage and Housing Corporation. All rights reserved. CMHC grants reasonable rights of use of this publication's content solely for personal, corporate or public policy research, and educational purposes. This permission consists of the right to use the content for general reference purposes in written analyses and in the reporting of results, conclusions, and forecasts including the citation of limited amounts of supporting data extracted from this publication. Reasonable and limited rights of use are also permitted in commercial publications subject to the above criteria, and CMHC's right to request that such use be discontinued for any reason.

Any use of the publication's content must include the source of the information, including statistical data, acknowledged as follows:

Source: CMHC (or "Adapted from CMHC," if appropriate), name of product, year and date of publication issue.

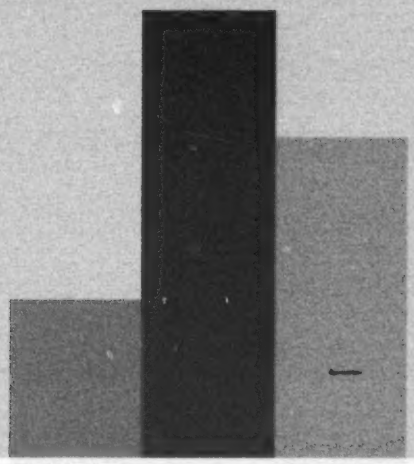
Other than as outlined above, the content of the publication cannot be reproduced or transmitted to any person or, if acquired by an organization, to users outside the organization. Placing the publication, in whole or part, on a website accessible to the public or on any website accessible to persons not directly employed by the organization is not permitted. To use the content of any CMHC Market Analysis publication for any purpose other than the general reference purposes set out above or to request permission to reproduce large portions of, or entire CMHC Market Analysis publications, please contact the Canadian Housing Information Centre (CHIC) at chic@cmhc.ca; 613-748-2367 or 1-800-668-2642.

For permission, please provide CHIC with the following information:
Publication's name, year and date of issue.

Without limiting the generality of the foregoing, no portion of the content may be translated from English or French into any other language without the prior written permission of Canada Mortgage and Housing Corporation.

The information, analyses and opinions contained in this publication are based on various sources believed to be reliable, but their accuracy cannot be guaranteed. The information, analyses and opinions shall not be taken as representations for which Canada Mortgage and Housing Corporation or any of its employees shall incur responsibility.

Housing market intelligence you can count on



FREE REPORTS AVAILABLE ON-LINE

- Canadian Housing Statistics
- Housing Information Monthly
- Housing Market Outlook, Canada
- Housing Market Outlook, Highlight Reports – Canada and Regional
- Housing Market Outlook, Major Centres
- Housing Market Tables: Selected South Central Ontario Centres
- Housing Now, Canada
- Housing Now, Major Centres
- Housing Now, Regional
- Monthly Housing Statistics
- Northern Housing Outlook Report
- Preliminary Housing Start Data
- Renovation and Home Purchase Report
- Rental Market Provincial Highlight Reports *Now semi-annual!*
- Rental Market Reports, Major Centres
- Rental Market Statistics *Now semi-annual!*
- Residential Construction Digest, Prairie Centres
- Seniors' Housing Reports

Get the market intelligence you need today!

Click www.cmhc.ca/housingmarketinformation to view, download or subscribe.

CMHC's Market Analysis Centre e-reports provide a wealth of detailed local, provincial, regional and national market information.

- **Forecasts and Analysis –** Future-oriented information about local, regional and national housing trends.
- **Statistics and Data –** Information on current housing market activities — starts, rents, vacancy rates and much more.

Are you interested in housing research?

Stay up-to-date with the latest housing research findings and events related to sustainable housing and communities, housing conditions and trends, housing finance and more.

Subscribe Today to CMHC's Housing Research E-Newsletter!

64263_2012_B01